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West Europe Report

(FOUO 64/81)



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WEST EUROPE REPORT

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ECONOMIC

FEDERAL REPUBLIC OF GERMANY

PFEIFFER TO REPLACE DGB CHIEF VETTER

Hamburg STERN in German 22 Oct 81 p 318

[Article by Dieter Straubert and Heiko Tornow: "No Justice, Only Mercy"]

[Text] How the German Labor Union Federation happened to choose
Alois Pfeiffer as successor to Heinz Oskar Vetter.

For a long time Ernst Breit, chairman of the German Postal Workers Union, was considered a promising candidate to follow in Vetter's footsteps. A year ago, however, he turned down the career in Duesseldorf because he wanted to stay in Frankfurt with his wife who was seriously ill. Following her death 4 weeks ago, speculations about Breit spread again like wildfire, but again he put an end to the rumors. The occasion was a session in Travemuende of the federal executive committee of the German Labor Union Federation. He said: "I am not available."

The incident is casting a light on the difficulties the German Labor Union Federation is facing, trying to find a new first man. What is wanted is a union leader who can represent the opinions of the 17 leading functionaries to the outside, reducing these opinions to the smallest common denominator, and who will not interfere internally with the powerful leaders of the individual unions.

Because people like that are rare, last summer Heinz-Otto Vetter was considering the option whether he should not be his own successor. Vetter indicated his willingness to be available once more, and he expected to be called to save all the personnel problems of the organization.

But nobody called him. Because nothing in the German Labor Union Federation is done against the will of Heinz Kluncker, chief of the Public Service, Transportation and Communications union, and his colleague Eugen Loderer, leader of the Metalworkers Union. Neither one of them wanted Vetter any longer. In Loderer's opinion, Vetter is simply too old (vintage 1917). Loderer and his organization are fighting for earlier retirement. Kluncker has been opposed to Vetter's administration for a long time. ("You have no political line") and he finally wants a man in Duesseldorf's Hans-Boeckler-House on whom he can rely.

Vetter, disappointed because his offer has been rejected, recently complained about his powerlessness also publicly: He did not even have the right to represent the opinion of the German Labor Union Federation to the executive

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committees of the 17 member unions. Whenever they do listen to him, Vetter commented bitterly, "it is only to show him mercy."

In the future Alois Pfeiffer will probably share in such mercy. The agreement to make him the new chairman of the German Labor Union Federation came after Ernst Breit's refusal, because there is actually nothing objectionable that can be said against the former woodworking expert and ex-chairman of the small Horticulture, Agriculture and Forestry Union. Pfeiffer does not have any power within the organization that could be used to gain influence. Furthermore, a decision in favor of the 57-year-old economic expert of the German Labor Union Federation would not be a commitment for a very long future.

Even the chancellor cannot find any fault with Alois Pfeiffer. Helmut Schmidt likes to hear the story in Bonn that he is very appreciative of the econopolitical abilities of the future chairman of the German Labor Union Federation. During the most recent meeting between the chancellor and Pfeiffer, however, the first argument erupted. When the conversation turned to the austerity budget, Schmidt rebuked the union leader: "Alois, your figures are not accurate."

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ECONOMIC

FRANCE

BANKS' FUTURE AFTER NATIONALIZATION PROJECTED

Paris COMMENTAIRE in French No 15, Autumn 8' pp 393-401

[Article by Olivier Darronze, "French Banks Under the Yoke"]

[Text] One year ago I attempted in this same column to evaluate the "Glories and Woes of French Banks" (COMMENTAIRE, No. 11, Autumn 1980). I demonstrated that French banks experience their glory when they are independent and free to adapt to a moving market and to display their spirit of innovation, but that they are woeful when they are saddled with a complicated network of institutions, rules and procedures from another era imposed on them by the government. I decided a few months ago to provide a conclusion to this article by surveying the steps a liberal government should take to be true to itself and to allow French banks to complete their process of change and to raise themselves to the ranks of the international marketplace in Paris. These steps could be summed up in two suggestions: that the government step aside and that it restore a true market.

Unfortunately things have changed. The pendulum was swung far to the opposite side.

Now we have promises of a fully nationalized French banking system--albeit vague, wishful promises. Even after the meeting of the Council of Ministers that consecrated the principle, people are still playing guessing games as to which banks will be nationalized and which ones will be spared.

As for what tomorrow has in store for both groups, it is a well-guarded secret. How can one help but be surprised that the nationalization project, one of the main issues in the recent elections, has elicited so few proposals and comments in the months preceding and following the elections. There have been a few embarrassed interviews, some rumors, and some rare, almost confidential written pieces¹ which do not seem to commit anybody aside from their authors. Literature prior to 1978 was richer, although no clearer. People were looking forward to being enlightened by the prime minister's program speech last July--but he asked more questions than he answered.

Why so much mystery, secrecy and esthetic vagueness? Is it sadism, a desire to hide from the "nationalizables" the ways in which they will be handled up to the very

¹ Pierre Uri, "Nationalization of the Financial Sector," in SOCIALISM AND INDUSTRY; ACTES DU COLLOQUE POLITIQUE INDUSTRIELLE ET NATIONALISATIONS (Paris 1980); Thomas Lefranc, "L'Imposture monétaire" (Editions Anthropos, Paris, 1980).

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last moment? But beyond them, the entire economy is involved. Is it a lack of preparedness, because the Left's victory went so far as to surprise even its own people? But this victory is already a number of weeks old. Is it a conflict between an old "catechism" and a new reality with which it has to cope? But up to now, this "catechism" seems to have had no trouble in handling the shock, since they they have not found anything more urgent to do than to nationalize banks. Is it because of tensions between extremists and moderates within a very protean party? Probably so, and this is not terribly reassuring.

In any case, here we are, reduced to the gloss of obscure writings, or even to psychoanalysis, in an attempt to understand just what they want to nationalize, why, and how--and of course to hear "That isn't what we want." The "charter" between the President and the French people is certainly blindingly clear....

Just What Do They Want to Nationalize?

They want to complete the nationalization of credit begun in 1945. Therefore all the banks that are not nationalized to date will have to be, except for....The exceptions are in fact numerous--foreign banks, for a start. The reason for it is clear--but what gifts wouldn't we offer them to help them penetrate the French market! Then there are the mutuals: Crédit Agricole, Crédit Mutuel, Crédit Coopératif, etc. Why are they escapin, nationalization? Because they represent many voters, but officially because their organization, attitude and policies already follow the lines desired by the President-elect. To think of it, here is an original criterion in public law that deserves to be noted down. The question immediately comes to mind: did the banks nationalized in 1945 have an organization, attitude and policy that pleased the elected President?

And then there are a further 65 banks, not listed by name, that are spared because they do not have the one billion francs in residents' deposits. The optimistic local market had in the beginning welcomed the rumors that only a few of the largest private banks (specifically Paribas and Indoseuz) would be nationalized, or that rather than nationalizing banks, the government would be content with holding a majority share in their capital, thereby preserving the identity of each institution. The president and the prime minister quickly dispelled these illusions.

The government had the choice between the arbitrary and the absurd in this case. It would have been arbitrary to nationalize only a few additional banks: where would you stop and on the basis of what criteria? However, it would also be absurd to nationalize a hundred banks of all shapes and sizes that altogether occupy only a marginal place on the market. The arguments in favor of nationalizing banks (see infra), for what they're worth, are hard to apply to 15 percent of the banking market. So the government bravely decided to mix the arbitrary and the absurd and nationalize 36 banks (there is a sort of irony in this figure...). It appears that the industrial power of private banks is more dangerous today than it was 35 years ago. One must understand that they are out to get investment banks which escaped--fraudulently they think--the 1945 nationalization. But where did they go, with all the changes in status they have had? To find them, the best thing to do is to make a wide sweep--at the risk, however, of seeing a few of them, out of the 65, escape the net.

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At this stage, we inevitably arrive at the twofold conclusion that ideology and a sense of balance are not good house-mates and that despite its enormous freedom of maneuver vis-à-vis the electorate--or perhaps because of it--the Socialist Party is joyfully embracing ideology. Optimists refrain.

This having been said, there remains a semantic ambiguity. One usually says nationalization of credit. Does this refer to all institutions that engage in banking operations or those bank operations that are generally regarded as essential? The two interpretations do not agree. Credit operations can be "nationalized" without assigning the capital of private banks to the government. (This is what the radicals of the Left proposed in 1978.) But all banks would be affected by this, nationalized banks as well as mutuals and private banks. The trepidation of certain heads of nationalized banks is understandable.

But what does it mean to nationalize credit operations? If that means to direct, control and guide them, then that has already been done. Between credit limits and mobilization at the Bank of France, ceilings on this and floors for that and the invitations to banks, endorsed by the government, to join in establishing agencies of doubtful usefulness (CEPME for instance) or to grant credits to firms that are not creditworthy, what means doesn't the government have? Our authors recognize this fact readily and are the first to find fault with the resulting distortions in market operations--but it's "the fault of capitalism." Let's go to the source. "Therefore, because of a lack of complete control over the banking and financial system, the exaggerated interventionism of bureaucratic capitalism leads to the sclerosis of its own structures, without any kind of overall policy ever successfully being implemented."² And this is why your daughter is mute!

We are told today that the National Credit Council or the Banking Control Commission needs to be reformed. Before buying new tools, shouldn't we take stock of what we already have and decide what we can and want to do with them? If this is not done, everything is nationalized (except for the exceptions...) and twice--at a premium.

Why Nationalize Banks?

This is where advocates of nationalization are the most long-winded. It is not easy, however, to pick out the main ideas, as the concepts are so imprecise and confused and it is so difficult to distinguish reason from pretext. At least one of the favorite arguments of nationalizers, the absence of competition and a tendency toward monopoly--is missing here, since they have decided instead to denounce the fierce competition prevailing in the banking profession. The reasons given to justify the nationalization of credit can be summarized as follows: abolish financial power; acknowledge the public service feature of banks; give the Plan the means to enforce its law.

1. "Abolish financial power," or in other words, free the government and firms from the influence of financial capitalism, but also free banks from the influence of profits.

² Thomas Lefranc, op. cit., p. 186.

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The Left has always had the impression it is running up against a Wall of Money. We know that this wall is nothing more than a mirror of its own inconsequences. Wall or mirror, it wants to break it. Recent bitterness has revived the former myths: private banks fought hard against nationalization, hence against the Left, in 1978 and in 1981. This they are remembering and punishing. The allergy is real. To justify it doctrinally, a double myth is used: banks, through their shares in corporate capital, through credit blackmail, indeed through their unlimited powers gathered at shareholders' meetings, completely control the economy. Industry's and banks' interests differ, are even opposite, as banks try to direct industry along a path favorable to them, sucking the blood from small and medium-sized firms only to cast them aside when they have no more blood, etc.

One would certainly have to have a student's naiveté to believe, for instance, that the Compagnie de Suez' minority share gives it control over St. Gobain-Pont-à-Mousson, or that a bank could merrily kill off a customer. As a service industry with considerable resources committed to this end, banks are the first to be interested in the health of their customers. As for those (the prime minister, for example) who accuse banks of speeding up the demise of firms in trouble by withdrawing their aid, do we have to remind them that the courts readily penalize banks that have unduly prolonged the activities of a non-viable firm by imprudently providing it assistance at the expense of its suppliers, competitors and even customers? Conversely, do they believe that nationalized banks will finance firms in a poor financial position and disregard the solvency of their customers? This is a strange concept of a deposit bank whose own solvency is based on the security and liquidity of its assets. In France, it is well known that the industrial fabric is fragile and the right to guarantees is not only inconsistent but obsolete. If the national government or a local government intends to ensure the perpetuity of a firm that does not have an acceptable financial standing or the guarantees that a bank normally requires, should it force the hand of the banks--or instead take the initiative itself for this firm, that is establish the institutions and procedures (like the former Markets' Fund or the IRDI dear to Mr Savary in the Midi-Pyrenees region) that would make it eligible for bank credit? It is always a delicate task to evaluate whether or not a weak firm should be backed because of its underlying potential. This is the job of an insurer and not a deposit bank. It should be properly fulfilled by ad hoc institutions and it is in no way necessary to nationalize banks so that they respond to the request.

It is further said that profit alone guides private banks, and in its name they have imposed competition between nationalized banks and have forced them to accept the profit criterion. This is a total misinterpretation. It is not private banks that have set the tone, but the economic and political environment prevailing since the fifties. The same environment would have produced the same effects if all banks had been nationalized. On the contrary, it is nationalized banks that have tempered with competition and have made it fierce, because they are not held back by the concern for profits and liquidity. Thus they have led the entire profession to do foolish things, especially by the unrestrained development of tellers' windows--this waste denounced by the Socialists. The need to finance their computer equipment and to respect the new ratios rightly required by the central bank has led them recently to a sounder evaluation of things. This fortunate development would have been usefully completed by their denationalization. But alas, total nationalization is now going to bring them back to irrational action.

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Moreover, what criterion do they intend to substitute for profit, to guide the management of nationalized banks? Discipline, of course, accompanied by a total lack of interest in the results, if banks are expected to behave merely as tellers-payers, and the allocation of credits depends on the Plan. But what if you want independent and responsible banks? The Yugoslav experience where the pendulum never stopped swinging between anarchy and a brusque return to bureaucratic centralization shows what we can expect from self-management. Freed from the profit discipline, the "independent" bank cannot help but be confused and out of control.

2. "Distribution of credit is a public service that requires government appropriation." This is a statement of principle that immediately elicits a flood of questions: are banks confined to distributing credit? What mechanism is not indispensable to the functioning of the whole in an economy as integrated as ours, and how do you choose if you are not planning to nationalize the entire economy? Is a public service something you're prepared to lose money on?, and so forth. In the case of banking, the label public service is justified by two grounds as surprising as they are contradictory: banks manage "the money of others," and banks have inherited the "royal power to mint money."

Workers' savings, they say, are diverted from uses that would be in the national interest and used in speculative ventures that are of little economic interest but are highly profitable. The question is are workers prepared to invest their savings at their own risk for the profit of small and medium-sized businesses in trouble? The Communist Party replies unquestionably, for itself, saying that it intends to nationalize banks but not bank deposits.

Banks' reinvestment of savings leaves the use up to the saver. This is precisely how banks create money. Does one have to look to history and remember how governments have manipulated coins or the privileges granted by them to issue notes that are legal tender to realize that the government should assume the same rights over today's money, bank money? The prime minister is not afraid of accepting responsibility for this play on words and we are left confused. Are they thinking of the lucrative dishonesties of sovereigns of yesteryear? In fact, coins and notes are legal tender: to avoid any confusion, a single issuer is recommended. For coins, if government appropriation is not a given, then it is logical that it have a monopoly. Do they want to make bank checks legal tender, and give a single bank a monopoly over issuing representative money?

In truth, banks--mere financial intermediaries--find themselves creating money without even thinking about it. But is it the banks themselves that create it or their customers who request credit, or a deficit budget, or exporters who convert foreign currency into francs, etc.? The times when money is created (the famous counterparts of the money supply) are of secondary interest. It is the total amount of monetary liquidity (quantity and velocity of circulation) that counts, and keeping it in harmony with the increase in the national product. This overall control is the primary task of a central bank. You can make fun of the more or less elastic definition of monetary liquidity or the doubtful effectiveness of control techniques, an area where France's backwardness can be attributed entirely to the laziness of the Bank of France. Overall control--and only overall control--is needed. The nationalization of banks has nothing to do with this affair; it is beside the point. To demonstrate this, one need only point out that,

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for the better or the worse, credit ceilings are the primary way of controlling monetary expansion today and, ever since they have been in force, the nationalized banks are the ones that have violated them the most.

3. "The Plan must be given the means to enforce its law." It is true that general financing conditions also change with the role of the Plan. Before the Plan was simply a generalized market study, the government's thoughts on the main forces in the economy. These thoughts focussed on modifications to be made to market operations so that financial resources and expenditures could find their optimum adequation through the market. If the Plan has become more restrictive, if from indicating the possible it has moved to defining the necessary, a resource problem could arise. Money becomes a rare commodity that should be rationed so that it will be channeled toward basic objectives.

The concern is understandable. But, as we have already seen, all the components, institutions, tools, and procedures for selective credit are already available. No essential part is missing. What could "completion of the nationalization of credit" add to it? Doesn't this craving for means hide tremendous uncertainty as to the ends?

Many reasons do not make a good reason. There are no logical arguments in the paraliberal framework the Socialist Party claims to protect that are convincing. This is a vain test in courage and lucidity for the Constitutional Council, which is responsible for deciding whether "public necessity" "apparently" requires the nationalization of banks. Let's look at the thing simply. The visceral motives are well known although they remain unsaid: the reasons put forward are only pretexts or alibis. Are these motives compelling? If not, it is one of two things. Either the nationalization project is merely the recital of an old "catechism," that becomes all the more eloquent as it becomes more categorical: you want to believe it more than you really believe it, you nationalize because you said that you would, out of loyalty to yourself more than because you believe in it, albeit indifferently. Or else things are much more serious than we have been told: here we are in the position of the sick person who doesn't know the disease from which he is suffering and thus is entitled to imagine it is cancer.

To reach a decision, we must go down one floor in the conscience of the nationalizers and question the ways and means, and thus the underlying ends.

What Means, What Plans?

It is here as if by accident that the fog is the thickest. Here it is the beginning of September and we know only one thing: nationalization is urgent, a bill is to be submitted before the end of the month. What will it contain? Will it go beyond the principle of nationalization alone? Will it leave the "details," that is to say the methods, to other laws and regulations? Has the government only defined these methods?

I do not want to go into compensation of shareholders. That is not my purpose here and it would deserve an entire article. But how could it be fair? The closer it comes to equity, moreover, the more costly it will be. If the expense were charged to the very companies being nationalized, it would be a harsh blow

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to their operating account. But should we dwell on such a commonplace concern? Then let's go back to the fate of the banks themselves. Since we are reduced to making hypotheses, I will advance two clearly separate ones.

The Benign Hypothesis

The opinion is rather generally held by the public and by the banks themselves that nationalization will change very little in the firms' operations. People trust in the past. Is Crédit Lyonnais managed very differently from private banks? Has it suffered from nationalization? Hasn't it profited from it in certain respects? Some bank employees hope to gain advantages from a rather generous government agreement and from a charter based on the civil service. This is obviously a false hope but the popularity of the project keeps it alive.

Some managers may also think that the firm is going to retain its identity and procedures and that, moreover, by becoming a sovereign risk for third parties, they will not have to worry so much about its accounts and balance sheet. This optimism has some grounds in the short run. The minister of economy has had reassuring words. The prime minister has said that he doesn't want to "upset the structures or affect the legal status of existing networks." It is true that the former has also said that between the previous government's laissez-faire policy towards national firms and the bureaucratic centralization denounced by foes of nationalization, there was a happy medium (?) to be found. The latter claims that he is applying across the board (?) the 1945 documents on bank nationalization and the unsaid things in his speech leave room for all kind of interpretations as to the extent of the threat.

The benign hypothesis has against it its apparent lack of logic: are they going to nationalize 36 banks just to maintain the status quo? Moreover the minister of economy must be aware of the risks nationalization will entail for bank management, by abolishing the safeguards mentioned earlier. The Left has mixed feelings with regard to the three nationalized banks: these are antimodels that should therefore be renationalized. However, they are believed to be as dynamic as private banks. The minister for his part knows what tempers the value of this "dynamism." Does he really think he is offsetting the lesser influence of the traditional operating rules by closer supervision and stricter rules of conduct? Mr Bloch-Lainé, president of Crédit Lyonnais just a short time ago, complained about never receiving any orders from the authorities and thus feeling like an orphan. He was undoubtedly waiting for a personal invitation to observe the credit ceilings....

The Radical Hypothesis

It finds its strength in the weaknesses of the benign hypothesis, which can be accused of only paying lip service to the idols and of betraying the reasoning behind nationalization. This reasoning actually takes many forms; a number of people have circulated different scenarios. I will outline the major arguments from the works of P. Uri and T. Lefranc:

- (a) It is important to create systems of institutions specialized in investment (National Investment Bank and its satellites, the regional investment banks), in financing foreign trade, and financing small business, etc. Banks, although not

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excluded from these activities, would be subordinate to these specialized institutions and would serve merely as authorized intermediaries. They would in fact be confined to the short term and the French franc.

(b) Banks must be consolidated after being nationalized, or in other words the profession must be restructured and banks grouped around a number of limited poles (about ten), enough to preserve pluralism.

(c) Credit should be selective and should follow the guidelines of the Plan. This selectivity will find its full meaning with medium- and long-term credits, but will be extended to short-term credits, even if only in a negative sense to prevent financing of fixed assets or currency speculation.

(d) Refinancing of banks should be reformed, the money market abolished and banks restricted to applying directly to the Bank of France to cover their needs. This will protect the domestic market against the deleterious effect of international interest rates.

Let's not go into any further detail. We do not have a precise project in front of us but arguments, which have many variations and could give rise to endless combinations and compromises. Let's bet however that future proposals, either official or not, will borrow little or nothing from these arguments that claim to be consistent with the main idea behind nationalization.

Internal Contradictions

Just mentioning these arguments is enough, moreover, to show the many internal contradictions in the Socialist project. I will list five of them.

Restructuring vs. Pluralism

With the 300 some banks in France, many of which are often only specialized branches of larger groups, the socialist thinkers talk about a plethora. This is a frightening idea that reflects either a troubling misconception of the work of a bank or else a desire to reduce it to the mere distribution of credits--at the most computerized. From this perspective, to reject the bureaucratic colossus that a single bank would be and to keep ten banks or so in the name of pluralism is a sick joke. The bureaucracy is already sensitive about the size of nationalized banks. It could only get worse if those banks were to get fat on the spoils of private banks and at the same time get rid of competitors who are now forced to offset their inferior resources by a surplus of imagination. The banking profession is already overly concentrated in France, and the minister of the economy is the first to say so. To replace the current growth of banks of different sizes, specialities, styles, business approaches, methods, etc. by ten stereotyped monsters would narrow the choice of customers between banks as well as between available services. Moreover, forced specialization would mutilate the few banks that will remain in competition and create monsters: giving a national investment bank a monopoly over subsidized credit runs directly against the decentralization so popular just a short time ago.

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Restructuring vs. Employment Guarantee

Any merger entails a narrowed assortment of goods and services on the market, it is true, and justifies it through rationalization and a reduction in costs. For a labor-intensive industry such as banking, an improvement in productivity is brought about by a reduction in staff. Bank employees have been apprehensive over the computerization of their establishments, as it eliminates jobs. One could take the opposite approach and point out the many new services it would make possible, and hence the commercial employment it would generate. With the restructuring, this advantage disappears. Do they intend to reduce bank employment--and they should have the courage to say so--or curb the computerization of banks and replace underemployment by poor employment?

Plan vs. Autonomy and Responsibility

However, the Plan is drafted, it is restrictive and imposes an outside rule of conduct on institutions, which, however, are supposed to be responsible for their operations. There is a subtle distinction between the main political guidelines contained in the Plan and the individual decisions that will still be the purview of the normal decision-making structures (?). The verbal precautions aimed at averting interference by the government at the top and the unions at the bottom alone show the pressures the banker will be under in his everyday work. It is not enough to put forward two contradictory principles in the hope that they will automatically be reconciled in actual fact. Either the nationalized banker will make this decision, as the private banker used to do, on the basis of traditional operational criteria, i.e., profit, and pay no attention to the Plan, or he will be only an executing agent, with no responsibility by definition. Any compromise would not be legitimate and would heighten the disadvantages of both situations. Of course it would be different if the Plan, instead of giving directives to banks, were to create market conditions that would enable banks to use the activities benefitting from their favors, according to their own criteria. But in that case nationalization is not needed, as private banks would do the same.

Selectivity for the Sake of It

The prime minister is asking banks to add to the criteria they use in granting credits the national interest. This is keeping them amused. Banks pay close attention--and have for a long time--to what they call less pompously, and without brandishing the blue, white and red flag, the economic interest of the activities they finance. And the government already has all the means needed to stimulate their attention if necessary. But what more could it do with them? Our authors readily acknowledge that short-term credit operations, the best-defined task left to the banks, have little or nothing to do with selectivity. It applies to medium- and long-term credits, but they are being taken away from banks....

Abolishing the Money Market vs. Maintaining a Market Economy

They want to protect the autonomy of domestic policy against the contagion of international interest rates. They are not proud of the overall control of the money market which past experience would prove ineffective. They will not allow banks to lend more capital than they collect by refinancing on the market. The central bank is supposed to be exercising close control over resource "deficits." On a

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technical level, they plainly want to return to discount ceilings (and to hell and super-hell), as they flourished in the fifties. Thus the timid attempts to set up a money market in France will be swept away, undoubtedly to the great joy of the Discount Department in the Bank of France, which has critical employment problems, and to the great satisfaction of the offices in the Bank of France and the Ministry of Finance whose latent economic planning has resisted 30 years of so-called liberalism.

So we have short circuits and banks will lend only as much as their deposits. This being the case, either they will have to be encouraged to increase their deposits, i.e., their tellers' windows and worsen the famous waste, or they will be reduced to the status of teller-payer. What will remain of the market economy and of the hope to see market mechanisms create an economy with authoritative resource allocations?

The radical hypothesis is definitely no more logical than the benign hypothesis. It in fact is like an unstable connection between two series of principles which are consistent internally but incompatible one to the other: nationalization, restructuring imposed specialization, partitioning, closer supervision of banks, planning and selective credits, on the one hand; and, decentralization, autonomy and responsibility of the economic agents, and a market open to the outside world, on the other. The first series closely follows the most traditional Marxist line. The second, in contrast, is a recent addition to the doctrine, and may be opportunist but in any case is alien to it. What is the precise meaning of this addition? Do they mean to be reassuring, or to reassure themselves? What does it mean to stress the minor position of the public sector even after nationalization? Expanding the public sector is either something good, and then why make excuses for it, or something bad, and then why give it to it at all? Do they want to ensure the originality of the French socialist experience and ward off the demons of collectivism? But what a surprise it is to see collectivism so fiercely repudiated by the people who want to give the collectivity whole pieces of the French economy!

In the final analysis, what is the relative importance of each series of principles in the nationalization project? It probably varies according to where each is located in the socialist spectrum. Contradictions between principles can only reflect conflicts in proclivities within the Party, the Parliament and the government.

Where Are We Going?

Let's sum up. The decision to nationalize banks has been made and it will soon be ratified by Parliament. We have now turned our backs on what could have been considered--before the presidential elections--as the direction French banking should take. The liberation timidly sketched in 1966 has certainly made little progress since. The course was at least maintained and, since 1978, the hope for new progress was not unrealistic. Today the course has been reversed. What is proposed is nothing other than an exacerbation of the evils with which banking is now afflicted. Thus it is no longer a question of advancing but of defending, no longer a question of improving things but of trying to make the best of a bad situation.

What are the odds? We must realize that they are against us. Nationalization has its own dynamics. It is what is called "the strategy of the break." P. Uri

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referred to this and said that a liberal government must not be given the opportunity to come back to nationalizations one day, that the situation must be made irreversible and the tracks must be covered to this end. Let's move on to the questionable compatibility between this strategy and the devout respect shown for the democratic alternative. In France where conservatism is pushed to such a point that the achievements of a revolution will never be questioned again, nationalization is a break in itself. It is not a question of coming back to it; banks were never denationalized, and neither were insurance or Renault. Let's, in addition, take a look at the diverse attitudes of the extreme Left: small groups of naive or impatient revolutionaries denounce the inconsistencies in the Socialist's nationalization program and want everything right away; the official communists, more political, are generally satisfied and ramble emulously on about responsibility, pluralism, etc. They know that the important thing is that the break be complete and they rely on the rationale of nationalization, which is to move step by step. It is in this perspective that the nationalization of banks finds its priority. Take credit, take pricing profits and tax profits as well, and you will have the firms before ever having touched their status. Nationalization, whether you like it or not, leads to collectivism. The contradictions are not meant to frighten the marxists. They develop dialectically--and inexorably.

This having been said, the process, however relentless it may be, is neither linear nor continuous. Dynamics encounters resistance, the fear of international lawsuits, and possible challenges from the Constitutional Council that may give reason to stop and think. Within the party in power, factions are pulling in opposite directions.

People are still afraid of collectivism. "The State will not establish control over everything," "We will not upset the structures!" "Our model is Renault," they say. After all let's take them at their word. Let's not get too excited about the apparent irrationality in this or that proposal--we have to learn to live with irrationality. Under the circumstances, good sense dictates that we be inconsistent rather than giving way to a fit of logic.

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POLITICAL

SWEDEN

CONSERVATIVES CHANGE LEADERSHIP, SEEK TO HEAL RIFTS

Stockholm VECKANS AFFARER in Swedish 15 Oct 81 pp 50-53

[Article by Jonas Hultkvist]

[Text] The Conservatives, with Ulf Adelsohn as the new party leader and with a much younger leadership, are exhibiting a new face, but what about their profile? There are many question marks in regard to Ulf Adelsohn as the Conservative convention gathers next week in Falun. And there is a lack of clarity in regard to the continued role of Gosta Bohman. At the same time certain rifts can be detected in the party. The success of the Norwegian Conservatives is inspiring, but can that success be copied in Sweden?

When the Conservative Party holds its convention next weekend at Falun, it will demonstrate the same determination and unity towards the future as the Social Democratic Congress did recently. The Conservatives will get ready psychologically for next year's election. For the Conservatives an economic action program for the rest of the eighties, "A New Way," will also be a unifying element and a platform for the electoral effort.

Like the Social Democrats the Conservatives hope to designate a prime minister next year, and there is some reason for this optimism. Just like the Social Democrats the Conservatives have a favorable wind.

But in contrast to the Social Democrats the Conservatives will approach the election with a new and not wholly non-controversial party leader at the top and new and younger people in other leadership positions. The Conservatives will show a completely new face--the question is whether they will also exhibit a new profile.

Took Command

Costa Bohman succeeded in achieving during the seventies what few people thought he could do: he became the "strong man" which that small, mismanaged and strife-torn party needed, and succeeded in bridging the gulf between the light-blue and dark-blue factions.

This is no easy inheritance for Ulf Adelsohn to discharge--30 years younger than his predecessor, without parliamentary experience, without any ties to the ultra-rightwing core of Conservatives, and with a "non-Swedish" appearance.

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Adelsohn is the obvious successor in line with the party's long range strategy, whose father is Carl Bildt, Gosta Bohman's righthand man and regarded by many as the most powerful figure in the party. Adelsohn has been skillfully launched as such.

Many Questions

The strategy succeeded--except for the seat in parliament. Ulf Adelsohn was at times reluctant to follow the prescribed course and in 1976 he refused a seat in parliament which went to Ander Wijkman.

There are still many questions in regard to Ulf Adelsohn when he takes the helm of the party in a few days. Many people consider him indeed charming and dynamic but too shallow. And in regard to certain questions crucial for the Conservatives it is not known where he stands. He has not expressed himself in such key questions as defense, security and equality before the law. As a key Conservative expressed it, "there are many unknowns in regard to Ulf."

On the other hand, he is believed to have the ability to attract younger voter groups who do not have normal ties with the middle class environment. According to the recently published report, "Swedish Voters," by the political scientist Soren Holmberg, the Conservatives have increasingly won the support of young people. In the election of 1979, 20 percent of the new voters supported the Conservatives, the highest figure since the 1956 election.

A rejuvenation of the party's rank and file appears thus to be underway. This is in conformity with the rejuvenation in the party's leadership, where the 34-year-old Georg Danell will be party secretary, and the 32-year-old Carl Bildt joins the party executive board along with, among others, the 37-year-old Anders Bjorck, at the same time that the older gentlemen, Steffan Burenstam Linder and Eric Kronmark, first and second vice-chairman respectively, are putting on their hats and leaving the stage.

Unclear Role for Bohman

The fact that Lars Tobisson, the departing party secretary, is only changing roles in the party presidium and will become first vice-chairman is to be seen as a balance. The same goes for Ella Tengbom-Velander, 60-year-old councilwoman from Helsingborg, becoming second vice-chairman, in accordance with the nomination list. But most important of all for continuity is that Gosta Bohman will remain in parliament for at least a year and will be the party's chief spokesman, at least in economic questions. His role in the party in the future is still uncertain.

"Gosta will never relax his hold on the party," says a person from the circle of advisors around Gosta Bohman. "Even if he sits in a boat out in the Sundskar fishing, he will want to participate in formulating policies."

A future problem will be how Ulf Adelsohn will handle himself in this situation.

Cracks in the Wall

The party meeting will show outwardly a well-polished facade. That is absolutely necessary for the election. But that does not mean that there are not cracks in the wall.

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Recently, five members of the Conservative Youth League in Vasterbotten were cashiered. They had, from the ultra-conservative viewpoint, criticized the chairman Gunnar Hokmark, somewhat noteworthy in as much as Hokmark himself is one of the most "dark blue" individuals. The result was that 15 individuals from the Vasterbotten Conservatives refused to allow themselves to be nominated for 1982 parliamentary election.

What first appeared to be a minor matter on the periphery quickly became something more significant. Even if the Conservatives in the North are very conservative--for example they regard Ulf Adelsohn as a "typical liberal"--this is evidence that the Conservative Party is not quite as homogeneous as the party leaders want to suggest.

Perhaps the most important question for the Conservatives in the next year will be how the party can, strategically speaking, capitalize on the lessons from the Norwegian parliamentary election.

One can detect in leading circles of the Conservative Party differences as to whether the Norwegian situation is applicable to Sweden. Thus, Lars Tobisson shows a tendency to cast a glance at Norway, while Carl Bildt warns against blindly looking at the development in Norway.

Lars Tobisson said, "As party secretary I have always had the ambition to catch up with the Norwegian Conservatives. But every time we thought we were doing so, new figures have come from Norway showing that the Norwegian Conservatives are pulling ahead."

Lars Tobisson points out, however, that the difference today between the support Norwegian and Swedish Conservatives enjoy in the electorate is not so great. The Norwegian Conservatives received almost 31 percent in the election, while the Swedish Conservatives, according to the Swedish Institute for Public Opinion, had 26.5 percent of the voters. "But it is worth noting that center in Norway still got 16 percent altogether. That is just about as much as the center here in Sweden, according to the most recent public opinion poll."

Lars Tobisson desires to point out the similarities in the Norwegian and Swedish situations, but he also wishes to maintain that the Conservatives (Sw) must try to cooperate with the center. "We won't win the elections by ourselves."

Encouraging

Carl Bildt is more careful in making comparisons with Norway. "Many in the party make a comparison in order to encourage the party workers. But I think you have to look at each country in itself. At the same time it should be noted that Conservative gains are a common trend in all the four Nordic countries."

Carl Bildt says in addition, "The goal is partly to make a better showing than in the 1979 election, and partly to create a three-party government."

What tactics should the Conservatives then follow up to the election in order to attain this three-party coalition?

"There won't be any common platform," Lars Tibisson says. "But we won't go out and hack at each other unnecessarily."

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The goal which the middle class has in common is the struggle against social democracy. "And thus there is room for compromises with the center," Carl Bildt believes. "On the other hand, we have no scruples against cooperating with the Social Democrats if our views in basic questions coincide."

Taxes and Defense

But there are areas where there can be no compromise:

One is the tax question. We cannot accept the government's agreement with the Social Democrats about a reform in the marginal tax in 1983, instead of 1982 as the Conservatives desire.

Another area is the defense question. "Falldin in his letter to Gosta Bohman established certain firm goals for the upcoming defense resolution. But there is a tendency within the government, in the Liberal Party, not to attain them, and even go farther than the Social Democrats. If that is the situation when the resolution is presented, yes, then there will be a struggle."

How willing the Conservatives are in general to compromise remains to be seen. Friction between the Conservatives and the center is increased by the fact that the Conservatives this fall are preparing their own savings program, which will be presented in November or December and which will be more austere than the government's 12 million.

The Conservatives support in general the economy measures which the government pointed to in its economic crisis program. But the Conservatives in their own program are intending to be tougher, for example, in regard to aid to undeveloped countries, than the government. It is not unlikely that one can end up under the 1 percent goal.

Incompetent Social Democratic Leadership

In addition, a Conservative resolution during the autumn session of parliament will result in a tough examination of the government's policy of industrial support. The Conservatives believe there is strong opposition to the flow of billions, administered by the Department of Industry. The recently proposed and very critical investigation of industrial support has the party's full support. The intent is to examine the situations where the state has been forced to intervene to support industry and may result in a motion in which the Conservatives will demand a complete end to support for industries, such as the Swedish Sugar Corporation and Swedish Petroleum, or in some type of upper limit as to how much can be granted.

"It is, for example, unreasonable to hand out 700 million kronor to an incompetent management in Swedish Petroleum, while at the same time reducing the funds for pensions by the same amount," Carl Bildt says.

According to Lars Tobisson, the questions the Conservatives will present in the election are:

The economy. No to funds, reduced public expenditures, and lower taxes.

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Schools. Education must be improved. Do away with "the indifferent school."
Sweden is in danger of falling behind internationally.

Housing: Home owners should not be threatened with elimination of the deduction rights.

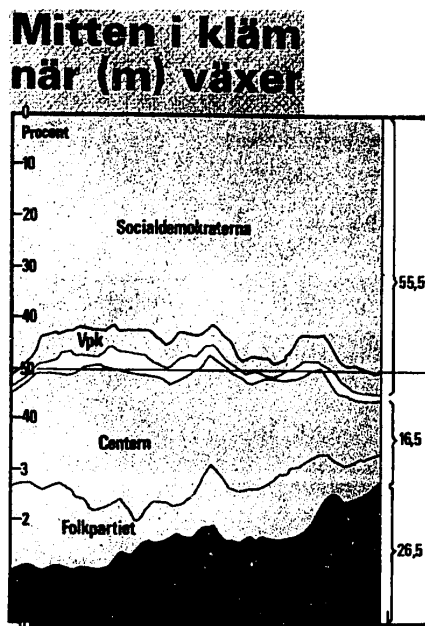


Ulf Adelsohn (right, above), and his new party leadership: Georg Dannel (extreme left), former minister of planning who will become party secretary; Lars Tobisson, party secretary who will become first vice president, Ella Tengbom Velandar (below, left) municipal council woman who will become second vice president; and Carl Bildt, his gray eminence, who is joining the new party executive board.

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The Center in a Vise When the Conservatives Grow



1. Social Democrats
2. Communist Left Party
3. Center Party
4. Liberals
5. Conservatives
6. Election Results

A Norwegian pattern? During the seventies the Swedish political center has been increasingly pressed between a stable socialist bloc and a growing Conservative Party. Source: Swedish Institute for Public Opinion Polls.

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MILITARY

ITALY

DEFENSE MINISTER ON MILITARY POLICY, MIDDLE EAST

PM191713 Milan EUROPEO in Italian 16 Nov 81 pp 9-11

[Interview with Lelio Lagorio, Italy's defense minister, by Stefano Silvestri:
"Military Policy: Italy and the Middle East"]

[Excerpt] [Question] The increases in defense spending are high--29 percent in the case of the 1981 budget (with inflation running at 22-23 percent) and 34 percent for the 1982 budget.

[Answer] This is only apparent. First, the major increases concern expenditure on personnel, to whom the communists pay great attention and who in 1981 received increases of 35 percent, plus a 60-percent increase on training and 27 percent on infrastructures. This year expenditure on personnel will increase by a further 35 percent, training 40 percent and infrastructures (barracks) 35 percent. As for actual weapons, in 1981 we have kept below the inflation rate (with an increase of only 7 percent). This coming year we are making up for that with a 24-percent increase, but let nobody tell us that we have grandiose plans. In January 1981 the supreme defense council, at my suggestion, decided to postpone the modernization plan envisaged in the 1975 laws by 5 years, thus scheduling its completion for 1990 instead of 1985, because we do not have enough money and because some weapons, such as the new tornado fighter-bomber, have proved to be very expensive. So much for our supposed giantism. This is rather a policy of miserliness.

[Question] Perhaps the communists have changed because of pressure from the pacifist movement. You once astonished the radicals by signing the referendum for the abolition of military courts. You would not join a peace march now, would you?

[Answer] Well, perhaps that is a little exaggerated. There are different roles: mine is to help formulate an institutional government policy for peace, and I believe that I am doing my duty well, first by taking the comiso decision and then by attending the NATO meeting and being the first to propose--before the nordic countries or the Germans started talking about it--the zero option, that is, the offer to the Soviets to eliminate all long-range nuclear weapons in both the Eastern and Western blocs. And this has become NATO's position, which is something that I am pleased about: it is a specific, not merely declamatory, political act.

[Question] So do you dislike peace marchers?

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[Answer] No. Peace marchers are always friends. Of course they can also become allies when their marches are politically well orientated (as in Milan, not as in Rome, I mean). As for the advocates of unilateral disarmament, I consider them morally blameless but politically naive, and in any case they are in a minority in Italy.

[Question] That does not alter the fact that Italy is now NATO's real mainstay.

[Answer] Yes. Without Italy's political stance the Atlantic Alliance would risk losing the Mediterranean and Germany could slide toward neutralism. Our policy is now the keystone in the system. I acknowledge this, but I do not understand why I should be ashamed of it. On the contrary, NATO serves to maintain peace. Berlinguer himself has said so several times, and perhaps he will say so again soon, if it is true (though I certainly hope not) that we will have further general elections in the Spring. Between elections he seems to forget it.

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GENERAL

FRANCE

BRIEFS

SDECE PURGE--[President] Mitterrand has ordered [Pierre] Marion (director of the SDECE) to initiate an investigation within the service and conduct a purge. Mitterrand believes that it was deliberately and consciously misleading for the SDECE to have caused the President's office to believe for 3 days that Goukouni [Oueddei of Chad] had been overthrown. [Text] [Paris PARIS MATCH in French 20 Nov 81 p 90] /COPYRIGHT: 1981 par Cogedipresse S.A./

CODE SECTION HEAD--Bernard Guitton, minister plenipotentiary and former secretary of the North-South Conference, will take over as director of the code and mail section in the Ministry of Foreign Relations. [Text] [Paris LE LETTRE DE L'EXPANSION in French 16 Nov 81 p 5] COPYRIGHT: 1981. Groupe Expansion S. A.

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GENERAL

SWEDEN

BUSINESS ORGAN: GOVERNMENT BROKE U.S. TECHNOLOGY PACT

Stockholm VECKANS AFFARER in Swedish 12 Nov 81 pp 36-41

[Article by Gunnar Hagtorn]

[Text] What happened within the board of Stansaab in the fall of 1977? To what extent was Minister of Industry Nils G. Åsling in agreement with it--and why did the government not see to it that continual reports were sent to the United States on the deliveries effected? (This was part of the delivery terms.) And why do members of the board of Datasaab (formerly Stansaab) belittle the importance of the so-called extractors to the aircraft control center in Moscow? The questions pile up. Gunnar Hagtorn of VECKANS AFFARER started looking into the matter via revealing board minutes and dozens of interviews.

The negotiations to merge Stansaab and Datasaab--both owned for 50 percent by the state and Saab-Scania, respectively--were concluded in May of 1977. Stansaab, at the time, had a Russian order for an aircraft control system for Moscow Airport, among others, to an amount of approximately 320 million kroner and signed in 1975.

The delivery presupposed an American license. The application for such a license had been submitted, but, in the spring of 1977, the license had still not been granted. Efforts were made by the company as well as at government level to expedite the processing of the license at the license-granting authority of the U.S. Department of Commerce. The license still did not arrive.

In the fall of 1977, the matter had become critical. If the license was not granted soon, the delivery could not take place in time, and the system contracted for would thus not be in operation in time for the Olympic Games in Moscow in 1980. Even worse: Stansaab now began seriously fearing that it would not be possible at all to get the necessary license, and that they, therefore, would not be able to deliver the system at all. At Stansaab, the various scenarios were analysed (including the economic consequences):

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- a. No license at all--with the result that the entire deal would fall through.
- b. A limited license, subject to conditions, with the result that only part of the system agreed upon could be delivered.
- c. That the components which the Americans regarded as militarily sensitive, and for which they would not grant a license, could be procured elsewhere.

In the storage rooms of Stansaab, all of the equipment was meanwhile ready for shipment to the Soviet Union--and was accumulating interest and a heavy burden on the liquidity.

Stormy Meeting at Which Chief Executive Handed Over New Limited License Application

At a stormy meeting of the board of directors of Stansaab on 15 September 1977, it appeared that Gunnar Wedell, chief executive, in July of the same year, had handed in a new and limited license application. In this application, the, to the Americans, sensitive master radar stations in ACC (Area Control Center) with several functions had been omitted.

This information was given by Gunnar Wedell, chief executive, in answer to a direct question from the representative of Saab on the board, Pehr Lagerman (at the time chief executive of Saab-Scania). The reply had the effect that Lagerman registered his dissent in the minutes of the handling of this entire license matter.' He pointed out that the chief executive did not inform the board that certain functions had been omitted from the license application, and that the board had not approved the action taken by the chief executive.

Lagerman went on to point out that the limited scope of the license application would involve limitations in the performance of the aircraft control system, and that this was 'a departure from the agreement made with the Russian customer.'

Another four board members, among them Viggo Wentzel (also of Saab-Scania), pointed out, according to the minutes, that it, also to them, was news that 'the license application had been changed, as far as the scope of the delivery was concerned.'

However, the situation was much more serious than from what appears directly from the above--it was a question of limitations of the scope and performance of the aircraft control system, jeopardizing the entire deal. This because Gunnar Wedell, chief executive, had made cuts in the license application, so that the system quite simply would not function when installed in the Soviet Union!

And even if the Russians, contrary to any reasonable expectation, would accept an aircraft control system which did not work, the situation would still be critical. The completed equipment in the storage rooms was now

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only partly covered by the license application--and would then have to be rebuilt.

The new license application of the chief executive was granted by the United States on 10 October 1977--but this fact ought not to have given rise to too much happiness within Stansaab.

The LM investigator, Magnus Lemmel, as well as several independent experts confirm that an aircraft control system within the framework of the new license would not have functioned in the Soviet Union.

However, according to Lennart Lubeck, at the time, a member of the board of Stansaab (later on also of Datasaab) as well as division chief within the Ministry of Industry, the system would, 'of course, have functioned' even if Stansaab had stuck to this license. According to Lubeck, it was merely a question of a 'more or less elegant solution.'

But this is not the truth, as will be seen from the following facts:

The Russian domestic aircraft (30-40 percent of the air traffic) carry no transponders. And, in order to guide aircraft which lack such equipment, both primary radar and the extractor for it are needed.

Lennart Lubeck admits that it was 'crystal clear' that the extractors were omitted both in the application and in the license subsequently granted.

Why does Lennart Lubeck then claim that the system would still have been able to function, a claim that is so easily refuted? He probably does not want to admit that the breach of license became a fact as soon as Stansaab started delivering the equipment in the late fall of 1977.

It must be difficult to make anybody believe that a company delivers--and that the customer accepts--a commodity which will not work. Two possibilities then remain:

(1) Neither Stansaab nor the Soviet Union understood that a delivery in accordance with the license granted would result in a system which would not work under Russian conditions.

(2) Stansaab intended (and informed the Russian customer accordingly) to deliver a working system--even if it did not have the license for such a system.

Ådöling: Under Swedish Law, Board Bears Ultimate Responsibility

The first one of these alternatives ought to be discarded because of its absurdity--and that is also what happened. Then remains only alternative number two.

It is more difficult to ascertain with whom within the company and/or on the owner side (Saab-Scania and the state) the responsibility rests.

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Minister of Industry Nils G. Åsling has publicly pointed out that, under Swedish law, the board has the ultimate responsibility for the actions of the company--that is formally correct. But, in the present case, this is less interesting seeing that it is not a question of a violation of Swedish law. It is more relevant to point out the political responsibility connected with the state-owned enterprise.

As far as the board is concerned, it is quite clear that the license question was a matter for the board to decide. The matter was, indeed, dealt with intensively at one meeting after the other.

It has not been possible to find any proof or signs that the board delegated the license matter to somebody further down in the company.

On the contrary, there are indications as well as clear proof that the question was delegated to people higher up--and, first and foremost, to the state owner side.

At the stormy meeting of the board on 15 September 1977, a letter was drafted to the Minister of Industry, Nils G. Åsling. The idea was that the letter was to be signed by the chairman of the board, Arne Callans, chief executive of the Investment Bank. The letter explained that the license requested had not yet been granted by the Americans 'on account of special circumstances.' Stansaab, therefore, was faced with 'big problems.' And if the license (it was here a question of the original license application and not the one that had been cut) was not granted, the board would have two alternatives only:

- (1) 'breaking the delivery agreement' with the Russians;
- (2) 'delivering without a license or exchanging the components which were subject to license.'

The latter alternative aimed at the possibility, if at all, of replacing from elsewhere the vital components and the software which the Americans did not want to let the Soviet Union have.

The letter concluded with the statement that 'both alternatives go beyond what lies within the field of responsibility of the board.' The board, therefore, considered itself 'prevented from taking a decision without having beforehand obtained the government's views in the matter.'

However, the letter never reached the Ministry of Industry--the explanation being that it was never signed, nor mailed.

A reason why the letter was not sent was that the alternative possibility of exchanging the 'sensitive' components had been left out.

In this situation, the only thing left for Stansaab was to back out of the entire deal of 320 million kroner, take the losses from the equipment ready for delivery and pay damages to the customer for breach of delivery

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unless the license was granted 'within the near future' (according to the board's own letter).

But, at the same time, all reasonable hopes of a license which would cover the delivery in question had already been eliminated. This was brought on by the company itself. At the same board meeting, the chief executive had revealed that he had changed the license application so that it no longer comprised a system that would function.

According to the minutes of the board, changing the license application so that it would cover the delivery contracted for was never discussed. And it was hardly to be hoped that the reluctant U.S. licensing authorities, on their own, would extend the license beyond the scope of the application.

Stansaab Discussed Wilful Breach of Embargo

If the board did not deliberately consider breaking the U.S. embargo, the only thing left for it to do would be to let the whole deal fall through. However, an intentional breach of the embargo was discussed by the board!

And it was not a question of a matter which could be quickly decided upon.

Several alternative actions were discussed by the board. What was proposed as the most expedient way by the chief executive was to start shipping the completed equipment without license--officially calling it a 'loan' to the Russians until a license, if possible, could be arranged later on.

The chief executive thus suggested that the board commit an absolutely clear breach of the embargo by referring to the delivery as a 'loan.'

The board did not, on 15 September 1977, jump at the proposal by the chief executive, which indicates a certain instinct of self-preservation. But it is equally interesting that the board did not unanimously and flatly reject the proposal. According to the minutes, only two persons commented on the proposal.

Lennart Lubeck stated that the procedure would have 'extensive commercial policy and diplomatic consequences,' and that the board, therefore, would have to await an answer in the license question.

Gosta Fagerberg stated that the political risks involved were considerable, 'for which reason the board ought to contact the government in the matter.'

According to the minutes, after having discussed the matter, the board did agree to 'write the government, explaining the serious situation of Stansaab and making it clear that the company can no longer await an answer in the license question without serious economic consequences.'

However, one thing the board could not agree upon was the formulation of 'the letter to the government.' For that reason, it was decided to convene

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an extraordinary board meeting 'the following Sunday at 10 a.m.'--provided the 'ordinary members of the board do not by then agree on the formulation of the letter.'

Callans and Soder Have Big Blanks in Their Memories in an 'Important' Question

The opinions were thus divided as to what the board should tell and/or request of the minister of industry and the government.

The fact that the matter was to be discussed only by the ordinary members of the board, and that they were also to try to arrive at a decision outside of the board room is, however, a clear indication that it was a question of very sensitive issues about which the members did not want to have anything written in the minutes.

The extraordinary meeting of the board the 'following Sunday' never did take place--and the ordinary board members thus clearly agreed on the formulation of the letter to the minister of industry/government at an informal 'meeting at Stan,' which was not recorded in the minutes.

Arne Callans says that he cannot recall what decision was made--nor what the letter to the government contained.

Gunnar Soder, then under-secretary of the Ministry of Industry, recalls that the license issue was brought up at that time by Stansaab in the ministry. He says that he remembers that his colleague in the department, Lennart Lubeck, participated in the discussion, and that they were discussing legal aspects of the license issue. However, Gunnar Soder does not recall any details, nor what decision was made.

The matter was brought up in the Ministry of Industry not just in response to the 'request' from the board but also in another way. When, on 10 October 1977, the Americans approved the limited license application, a number of requirements were made of the Ministry of Industry and the government.

One of the American conditions (entered in the minutes at the board meeting of Stansaab on 17 October 1977) was a 'written assurance that the limitations contained in the present application compared with the original application will be observed both on the part of Stansaab and the Ministry of Industry.'

Under-secretary Robert Nilsson (who succeeded Gunnar Soder in the Ministry of Industry in the fall of 1977) states that he 'did not understand' that the above conditions were made.

Robert Nilsson, however, remembers another license condition directed to the Ministry of Industry/government: "We were to be prepared to send reports from the company to the Americans--unless the company chose to send them directly.'

According to this, the Ministry of Industry was thus to act as some kind of passive mail-box. But that was, of course, not the case. On behalf of the

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government, the Ministry of Industry was actually to guarantee that Stansaab would, at least every 6 months, report to the United States on the deliveries made to the Soviet Union. The purpose was to see to it that Stansaab would not violate the license regulations. Gunnar Soder confirms that this was the condition, and that the government undertook such responsibility to guarantee compliance with the license regulations.

License Breach Applied in Practice to Entire System Package

However, the reporting from Stansaab did not take place as agreed upon, and the government failed to live up to its guarantee. As explained in the LME report, among other places, Stansaab thus violated the license regulations. And, as shown above, the violation of the license regulations took place continuously from the start of the deliveries in the winter of 1977 until they were completed in 1979. The violation of the license regulations did not only involve the so-called circuit board but, in practice, the entire 'system package.'

Hans Werthen, chairman of the board of the new Datasaab from 1978, has explained on several occasions that he did not have the least knowledge of the license breach. However, it seems undeniably strange that the question of an additional license to cover the deliveries that were taking place was not followed up by the new Datasaab board. They thus did not even submit an application!

A question which remains to be answered is:

Did the new Datasaab board not read at least the minutes for the last 6 months of the board of Stansaab?

And finally:

Why did the Ministry of Industry not fulfill its commitment concerning the reporting on the deliveries.

Saves 5 Years of Research and Development Efforts

What kind of military damage has the Datasaab affair caused the United States? The Americans are, at the very present, looking into the Swedish violation. Nobody within the Department of Commerce in Washington wants to comment on this until the report is ready.

At the recent visit to Sweden by U.S. Minister of Defense Caspar Weinberger, according to what VECKANS AFFARER has learnt, the following criticism, among other things, of the Swedish licensing violation was made:

The Soviet Union has saved 5 years of research and development efforts.

It will cost the United States 'hundreds of millions of dollars' to adopt countermeasures in the form of modifications of the American weapons systems.

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Datasaab (and the new owner LME) maintain that the infringement of the regulations of the export license has not made it easier to use the aircraft control system supplied for military purposes. But this is being contradicted by military experts.

"An aircraft control system which includes primary radar extractors may be used for military purposes as well," says Lieutenant-Colonel Ola Lindgren of the Swedish Air Staff, Stockholm.

Has the Soviet Union then really saved 5 years of research and development?

"The Russians are good at letting the West do the basic research for them in order, subsequently, to handle the application themselves. That, certainly, applies in this case," says Ola Lindgren.

Militarily, the major gain to the Soviet Union would be an increased ability to process quickly in computers information from military radar stations.

By means of the extractor technology, which 'sorts out' and expedites the transfer of information from radar stations, it becomes possible to process observations rapidly in computers. The Soviet Union may thus be in a position to take faster and more effective countermeasures against attacking missiles and aircraft, military experts state.

Extractor--Brain of Aircraft Control System

The so-called extractors delivered by Datasaab to the Soviet Union without a license are part of the very brain of the aircraft control system. They eliminate interfering information from the radar stations and pass on (extract) useful information to the computers in the aircraft control tower. Without the extractors, the aircraft control system of Datasaab would not have functioned in the Soviet Union. This is explained by the fact that 30-40 percent of the air traffic (domestic aircraft) lack the so-called transponder. To guide aircraft without transponder, both primary radar and extractor are needed. Aircraft with transponder (informing the aircraft control personnel of flight, course, altitude, speed, etc.) may, however, be guided by means of secondary radar only.

"Without the extractor, the aircraft control personnel only gets radar information which cannot be processed in computers," says Lieutenant-Colonel Ola Lindgren, radar expert of the Swedish Air Staff. "It would be like mixing the data technology of the forties with that of the eighties."

An expert at the Defense Materiel Administration of Sweden (who prefers to remain anonymous) says: "The only information one would get without extractor is a poor primary echo from the aircraft which lack transponder--and this could not have been used for traffic control. All of the aircraft control personnel would, without the extractor, have to sit out at the primary radar stations."

Datasaab would thus not have been able to deliver an aircraft control system that would work to the Soviet Union if the company had wanted to

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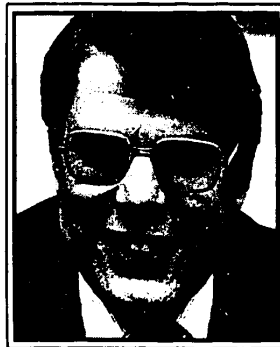
stay within the framework of the license. It is not likely that the Soviet Union would have accepted getting an aircraft control system which would guide only 60-70 percent of the air traffic.



Lennart Lubeck:
Reduces value of
the extractors



Arne Callans:
Does not recall
Åsling's reply



Gunnar Wedell:
Contemplated
'willful' breach
of license



Robert Nilsson:
Did not understand
U.S. conditions?

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GENERAL

SWEDEN

BUSINESS ORGAN CRITICIZES DATASAAB IN TECHNOLOGY TRANSFER CASE

Stockholm VECKANS AFFARER in Swedish 12 Nov 81 p 29

[Editorial]

[Text] On account of Datasaab's handling of the license case, Sweden and the Swedish trades and industries are still in a very unpleasant position. To put it bluntly, we have been caught red-handed--and are now left painfully exposed. The worst thing that we can do in this situation is continuing to pretend being innocent.

Because of its violation of the license regulations, Datasaab has saved the Soviet Union 5 years of militarily important research and development efforts. And it will cost the United States hundreds of millions of dollars trying to repair the damage through improvements of its own weapons systems. This claim was made from the American side during Secretary of Defense Caspar Weinberger's official visit to Sweden recently.

It is quite natural that the United States, in describing the consequences of the 'act' to the 'culprit' will tend to exaggerate the matter to some extent. In cases like this, one should, for example, also ask oneself how big a role the trend of public opinion at home may play in acquiring more resources for defense purposes. For equally natural reasons, the tendency in Sweden is the opposite--toward playing down and underestimating the consequences of Stansaab/Datassab's ascertained violation of the license regulations.

The rule of the thumb that 'the truth' lies somewhere in between the two extremes is, as is often the case, probably also in this case the most reasonable assessment. This 'truth' is, however, not a good basis for seeking to evaluate the consequences of the violation of the license regulations to the Swedish-American trade relations and to the transfer of technology which is important to the Swedish trades and industries. These consequences are instead determined, to a considerable extent, by the way in which the United States, in its own interest, chooses to interpret the breach of license.

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What this interpretation will be remains still to be seen--and trying to evaluate the commercial policy consequences may, therefore, for the present, amount to speculations only.

However, it is fully clear that, on account of the actions of Datasaab, Sweden and the Swedish trades and industries have got into a very unpleasant situation. To put it bluntly, we have been caught red-handed--and we are now left painfully exposed.

The worst thing for us to do in this situation would be to continue to pretend being innocent, to make transparent excuses, to try to wriggle out of it.

But this is what is still going on.

The risks involved--and the foolhardiness of it--are the greater seeing that Datasaab was partly owned by the state, and the Swedish government (represented by the Ministry of Industry), moreover, had undertaken the responsibility of a guarantee to the United States, the purpose of which was to prevent any breach of license on the part of the company.

The guarantee from the government--to see to it that continuous delivery reports from Datasaab be submitted to the licensing authority of the U.S. Department of Commerce--seems not to have worked at all. The reporting from the company did not take place--and the government did not pay any attention.

This is the more remarkable seeing that

(1) a division chief of the Ministry of Industry sat on the board of the company;

(2) the disinclination of the United States to agree to a license sufficiently comprehensive for the deliveries to the Soviet Union involved the under-secretary as well as high government officials in putting pressure on the company;

(3) both the deal with the Soviet Union and the entire company were jeopardized in the fall of 1977 by the continued refusal on the part of the Americans to grant the license--which caused the board to appeal to the Ministry of Industry for help;

(4) a license from the United States insufficient to cover the delivery was followed not only by the above but also by several other demands directed directly to the Ministry of Industry;

(5) one of these requests indicated very clearly that the Americans suspected the company of having plans to deliver equipment beyond the license granted;

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(6) in the fall of 1977, the chief executive of Stansaab, in the presence of the representative on the board of the Ministry of Industry, proposed a breach of license as the most appropriate of different alternative actions;

(7) in the presence of the representative on the board of the Ministry of Industry, the chief executive admitted having limited the license application with the result that the application did not even cover the deal contracted for.

Actually, it is entirely impossible to continue summing up the case. But the above ought to be sufficient to show that the Ministry of Industry, definitely without a doubt, must have been aware of the fact that the license issue was a matter on which one would be liable to burn one's fingers. Nevertheless, they did not bother to check whether the company, owned for 50 percent by the state, was handling the matter correctly. And they, moreover, failed to fulfill their own license condition--their guarantee to report to the United States on deliveries effected.

Until a credible explanation has been produced, the Ministry of Industry--its head and its chief officials--will, against the background of the above, appear as suspected, for good reason, of directly or indirectly assisting in the violation of the license by Stansaab.

But serious questions also have to be directed to the board of Stansaab as well as to the board under the chairmanship of Hans Werthen in the merged Stansaab/Datasaab.

In studying some board minutes and interviewing a number, in several instances, very reluctant, persons, VECKANS AFFARER has been able to ascertain, in the course of less than a week, that Stansaab/Datasaab, under the limited license which the company itself had requested, simply was not in a position to provide the Soviet Union with a reasonably functioning aircraft control system. And that the breach of license thus was a reality as soon as the deliveries started in accordance with the Russian contract.

What, then, is the explanation why the board of Stansaab, which devoted such a great deal of time and so many efforts to the license question, did not discover this?

And what is the reasonable explanation for the fact that the new Datasaab board did not even discover the matter once rumors started circulating publicly?

It has been stated that the chief executive of Stansaab and, later on, the chief executive of Datasaab, around the turn of the year 1977/78, went to Washington for discussions with the U.S. licensing authority.

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He is said to have returned with the message that the Americans had now caught on and were ready to grant an additional license for the militarily sensitive equipment which they previously, for a couple of years, had stubbornly refused to approve for delivery to the Soviet Union.

Against the background of the said person's previous actions in the licensing question at Stansaab (where, to the board, he proposed, among other things, a deliberate violation of the license regulations), this information cannot relieve the board of Datasaab of its responsibility.

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